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C O N F I D E N T I A L SECTION 01 OF 04 ASHGABAT 000699

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SUBJECT: TURKEMISTAN ENERGY: FM MEREDOV SAYS U.S.
INVESTMENT IN HYDROCARBON SECTOR WELCOME

REF: ASHGABAT 0690

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Classified By: Charge d'Affaires Ambassador Richard Hoagland for reason
s 1.4(B) and (D).

¶1. (C) SUMMARY: SCA PDAS Steve Mann met for nearly two hours on July 11 with Turkmenistan's Deputy Chairman of the Cabinet of Ministers and Minister of Foreign Affairs Rashit Meredov. Meredov:

-- insisted Turkmenistan has significant gas deposits in its off-shore Caspian blocks that are open to Western companies;

-- expressed fear that if Turkmenistan sells all of its gas now, there will be none for the future;

-- did not understand that Turkmenistan selling its gas at its borders works only for Gazprom; and

-- mentioned in passing Turkmenistan may need to take a new look at Caspian Sea delimitation methodology.

¶2. (C) SUMMARY CON'T: Mann explained to Meredov Turkmenistan needs to make a choice between a short-term "Russian model" of hydrocarbon development, with limited results, or the "Western model," which, while slower and more complicated, would prove substantially more profitable for Turkmenistan. If Turkmenistan wants to pursue a more profitable model, it would need the technology and resources that only private Western firms could provide. To attract world-class companies, it would need to open new hydrocarbon

fields, allow companies to develop onshore blocks, and ease its climate for doing business. Meredov stressed Turkmenistan's desire to expand its energy dialogue with the United States. Reiterating Turkmenistan's interest both in building a Trans-Caspian pipeline and in maximizing its profit, he urged Western companies to submit concrete proposals. He told Mann that, during the May 2007 trilateral summit in Turkmenbashi, President Berdimuhamedov had only signed on to a framework agreement for a littoral pipeline.

END SUMMARY.

13. (C) Mann told Meredov he had been in touch with Chevron, Conoco-Phillips and Exxon-Mobil, which were positive so far about their contacts with the Government of Turkmenistan. Noting SCA DAS Evan Feigenbaum's June 24-29 visit and other U.S. delegations to Turkmenistan, Meredov agreed that the relationship had progressed substantially over the last six months, and said he look favorably on the U.S. invitation for Turkmenistani officials to visit Washington during the next six months.

WESTERN DEVELOPMENT MODEL MORE COMPLICATED BUT MORE PROFITABLE

14. (C) Meredov was positive about U.S. firms' efforts so far to do business in Turkmenistan. The government was eager for foreign investment and looked forward to receiving concrete proposals. (COMMENT: The key to this is "concrete proposals." END COMMENT.) He reiterated Ashgabat is committed to multiple export routes for Turkmenistan's hydrocarbons.

15. (C) Stressing U.S. recognition of the need to move from theory to concrete action, Mann said, "We want to make this real." He explained two models for energy development: the

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short-term statist model Gazprom offers, which is fast but delivers modest results, and the Western model, which is more complicated and slower, but is more profitable in the long run. If Turkmenistan chooses to implement the second model, there would be challenges, including the need to resolve three sets of issues:

-- TAKE CARE OF THE UPSTREAM AND OPEN ACCESS TO NEW RESOURCES: In his meeting with Feigenbaum, Berdimuhamedov had asked, "Where's my pipeline?" The answer, said Mann, is, "Where's the gas?" The first time a Trans-Caspian Pipeline (TCP) had been discussed, the consortium was willing to build a pipeline that could transport 30-35 billion cubic meters (bcms) of gas without gaining agreement on a dedicated gas field. That business model, however, had been experimental, and it is premature to talk about a pipeline until access to long-term, serious sources of gas are identified. The TCP was only the midstream. Returning later to this topic, Mann pointed out that the Baku-Tbilisi-Ceyhan (BTC) and Shah-Deniz pipelines had been successful because they were connected with specific oil and gas fields. By comparison, the Odessa-Brody pipeline had been built without an assured supply, and it was not a successful model.

-- OPEN UP TO NEW COMPANIES: Turkmenistan has opened only its offshore Caspian Sea blocks to Western companies, yet these blocks primarily have oil, rather than gas. Chevron is interested in opening up a new field in the Amu Darya basin, where there is gas, but it is being told that onshore blocks are closed to Western companies. Turkmenistan needs to find a new way of doing things if it wants to increase direct foreign investment in the gas sector.

-- EASE THE VISA REGIME FOR HYDROCARBON-RELATED EXPERTS: Although Turkmenistan allows representatives of U.S. petroleum companies to enter the country, other support experts -- e.g., energy and financial analysts -- have problems getting visas. Easing the visa regime -- including for journalists, who need to be able to enter Turkmenistan freely -- is very important for increased investment.

¶16. (C) Mann presented Meredov a case study of Norway's hydrocarbon development experience, which he suggested has many parallels to Turkmenistan's situation. Norway, which had developed its offshore fields, had benefited by promoting multiple pipelines. By becoming an investment partner in its pipelines, it had realized a high percentage of profit. Turkmenistan, too, had the ability to participate as an investor. Likewise, Azerbaijan -- through SOCAR -- had similarly profited from its investment in the BTC pipeline. Thus, the "sell at the border" model does not maximize Turkmenistan's profit.

LIMITED WINDOW OF OPPORTUNITY

¶17. (C) Noting that Turkmenistan had only a relatively narrow window to take advantage of Europe's growing demand for gas, Mann urged Turkmenistan to act now to send a signal that it is seeking to enter the European market as a trustworthy gas supplier. Specifically, he recommended Turkmenistan lay a pipeline from the Livanov field (worked by Petronas) to the pipelines in Azerbaijan. Although this would involve only relatively small amounts of gas, it would nonetheless show the Europeans that Turkmenistan is seeking to enter the market.

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TURKMENISTAN NEEDS TO PRACTICE ENERGY NEUTRALITY

¶18. (C) Mann called for Turkmenistan to restore balance to its energy policy. Turkmenistan has a policy of neutrality and says in principle it wants to sell gas in every direction. Yet -- in practice -- Turkmenistan sells gas only north to Russia. While the United States respects Turkmenistan's existing contracts with Gazprom, there is no balance. For the United States, Turkmenistan energy "neutrality" was an issue of Turkmenistan's sovereignty, not personal interest, since not a single molecule of Turkmenistan's hydrocarbons would go to the United States.

BROADEN THE CONTACTS

¶19. (C) Mann encouraged Turkmenistan to continue its dialogue on energy issues with Azerbaijan and Kazakhstan. Mann said he recently had met with Azerbaijan's Deputy Foreign Minister Araz Azimov in Washington, who affirmed that Azerbaijan seriously wants a productive relationship with Turkmenistan. According to Azimov, the visit of Azerbaijan's Foreign Minister Mammadyarov to Ashgabat in May had been warm, but all agreed it would be good for more visits at the ministerial and presidential level to go forward. Mann urged that Turkmenistan seek to establish contacts with the International Energy Agency in Paris, which has access to huge reserves of data, and make its November 2007 Oil and Gas Exhibit "big and serious."

MEREDOV DEFENDS THE STATUS QUO

¶10. (C) Meredov responded that there are many issues that Turkmenistan needs to study, including strategic, tactical and technical ones. Turkmenistan works with different companies and governments, and the Government of Turkmenistan does pay attention to the "nuances of the relations" between Turkmenistan and the firms' host countries. Turkmenistan has enormous natural-resource wealth, which it needs to use rationally, for the future benefit of its citizens. Production pipeline design is linked to these concepts. Turkmenistan is willing to license offshore blocks through production sharing agreements, but only Turkmenistan would be allowed to develop onshore reserves. Meredov added, during the last round of planning for a TCP, U.S. firms had gained access to information -- from seismic surveys and other sources -- on Caspian resources, and should draw on that now.

¶11. (C) While Meredov was willing to acknowledge that the

Norwegian case study was interesting, he largely dismissed it, stating that it was for a different country which had its own approach. When Mann pointed out the tremendous profit that Norway had received, Meredov added defensively that the Scandinavian country had its own methodology, based on its own principles. "We have our own geography and neighbors," and Turkmenistan's priority was to develop its economic and social sector. He fixed on the fact that Norway was using up all its reserves -- something, he stressed, that Turkmenistan wanted to avoid. Turkmenistan, according to Meredov, was seeking new fields, but did not want to look at them on a short-term basis.

LITTORAL PIPELINE ONLY A FRAMEWORK AGREEMENT -- SO FAR

¶12. (C) Mann noted that building a TCP would be unattractive

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to Western companies if they had access only to Caspian Sea blocks, because most of those blocks produce oil, rather than gas. Meredov disagreed, and pointed out that Petronas had found gas in the Livanov field. Reminding Meredov that Petronas had found only associated gas, Mann asked why Turkmenistan was unwilling to open onshore blocks to Western companies. Chevron wanted to work in the Amu Darya basin. Meredov responded that a TCP would be in the western part of the country, so it made sense to let Western companies work fields in the west -- i.e., the Caspian blocks. The Dovletabad fields were for the south (India and Pakistan), and the Amu Darya fields for the east (China). When Mann pointed out that, practically speaking, Dovletabad was a Gazprom field, yet it was located in the south, Meredov firmly replied, "It is ours, not Gazprom's. Gazprom has only a three-year contract." Meredov also stressed that the 25-year agreement signed during the May Berdimuhamedov-Putin-Nazarbayev summit in Turkmenbashi was only a framework agreement and did not offer up a loss of Turkmenistan's sovereignty. Turkmenistan had agreed that it needed to build a littoral pipeline after identifying gas resources in the Caspian region -- which the president was willing to sell -- but the president had not actually agreed to build the pipeline.

¶13. (C) Commenting on the Caspian blocks, Meredov said -- briefly but significantly -- Turkmenistan may need to take a new look at Caspian Sea delimitation methodology. (COMMENT: If this is in fact emerging Turkmenistani government policy, it is a significant development. END COMMENT.)

TURKMENISTAN HAS A CHOICE: TOLKUCHKA SAUSAGE OR A BANQUET

¶14. (C) Mann reiterated that the window for building alternate pipelines to Europe is limited. While Turkmenistan has gas, accessing that gas is difficult because of geological factors and technical difficulties. Turkmenistan could quietly continue to extract its gas, but with limited profits. Greatly increasing its production, however, would require world-standard technology -- which neither Gazprom nor China could deliver. Turkmenistan needed to decide whether it wanted to eat a sausage at Tolkuchka Bazaar, quick and cheap, or to prepare for a grand banquet at a fine restaurant, which would be more complex but would deliver long-lasting satisfaction.

COMMENT

¶15. (C) Mann's meeting with Meredov was significant for at least two reasons: (1) it began to clarify for us Ashgabat's thinking on its energy development policy, and (2) it made clear the essential need for frequent and sustained high-level dialogue to nudge Turkmenistan toward understanding the advantages of Western investment and development models. The 15-year-old virgin emerging from the closed convent has a steep learning curve to become a sophisticated actor on the international stage. Sustained contact and dialogue are essential. END COMMENT.

¶16. (U) PDAS Mann has cleared this cable.
HOAGLAND